B8935-2 (u)(a)

500 LARGEST INDUSTRIALS

THE TOP AND BOTTOM

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TPE&C

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TPF&C Executive Compensation Study

TPF&C's annual study of executive compensation tracks the remuneration received by senior executives of major U.S. industrial corporations as well as changing patterns in short-term and long-term incentives provided to this group. Since 1980, the survey has included the Bottom 100 U.S. industrials* (those companies ranked 401-500) as well as the Top 100* of the 500 leading industrials.

What effect the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 will have on executive remuneration is not yet clear. Virtually all major U.S. companies provide substantial retirement benefits in keeping with – and keyed to – the pre-retirement compensation of key executives. TEFRA restrictions on employer contributions to pension plans and tax-qualified capital accumulation plans may cause changes in these companies' compensation programs in future years.

Financial characteristics of the survey companies, chief executive officer (CEO) demographics and total cash compensation statistics make up the first section of the report. The second section compares the incentive pay practices of the Bottom 100 industrials with those of the Top 100. Also included is a company-by-company listing of the short-term and long-term incentive compensation techniques currently in use by the Top 100 organizations.

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*almost identical to the *Fortune* listings (May 1982); exceptions noted on pages 15 and 16

Profile of the Survey Group

The Companies

Exxon Corporation, with sales of $108 billion (up $5 billion from the previous year), was first among the Top 100 industrial corporations for the third consecutive year. Median sales for the group were $6.8 billion, up $663 million, or 10.9%, over the previous year. Northwest Industries, number 100 in the group, had sales of $3.7 billion. ***Exhibit 1*** compares the financial statistics of the Top and Bottom 100 industrial companies.

Median sales for the Bottom 100 were $565 million, up 4.6% over the year before. EG&G Industries ranked first in the Bottom 100 with sales of $704 million. Shaklee Corporation, with sales of $465 million, was number 500 in our study.

Median equity increased 6.1% in the Top 100 group but decreased 3.4% in the Bottom 100. Similarly, median assets grew 6.3% in the Top 100 but decreased 3.6% in the Bottom 100. It was, in short, a difficult year for most industrial companies and, for many of those in the 401-500 rank, it marked the end – at least temporarily – of steadily rising sales and profits.

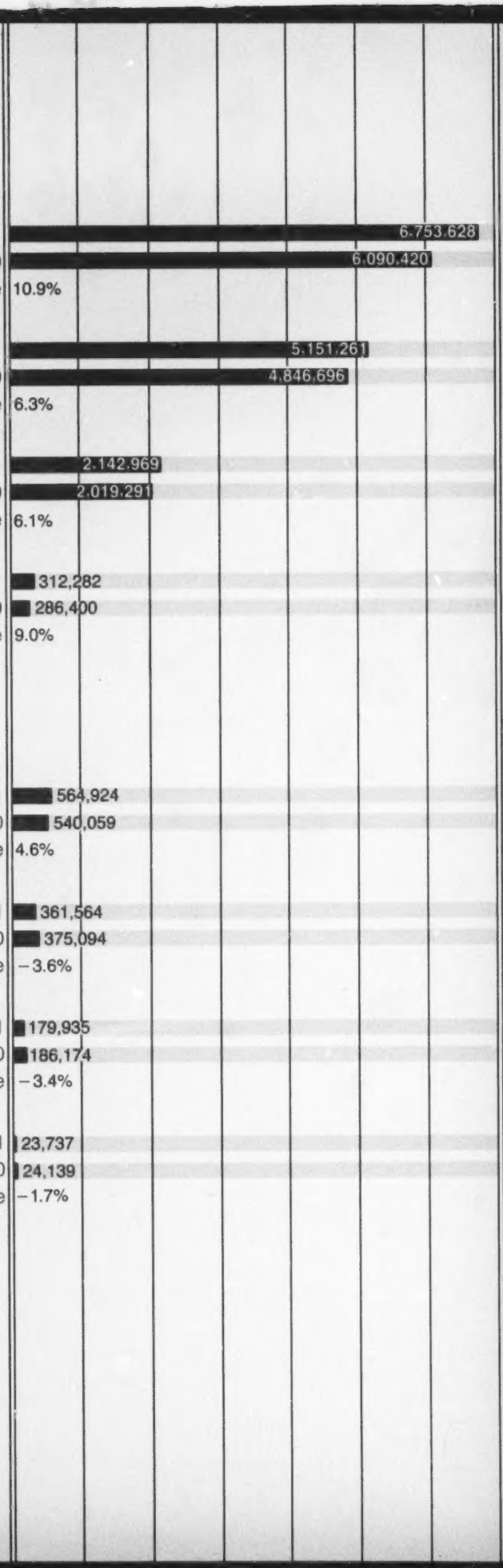
Seven companies in our last Top 100 listing are no longer in the group. CBS Inc. has become one of the Top 50 diversified companies. Conoco Inc., Iowa Beef Processors, Inc. and Marathon Oil Company have merged with other companies, and Esmark, Inc., Reynolds Metals Company and Textron, Inc. have dropped below the 100 rank. Replacing them are: Anheuser-Busch Companies, Inc., Celanese Corporation, Combustion Engineering, Inc., Inland Steel Company, Kerr-McGee Corporation, Nabisco Brands, Inc. and Northwest Industries, Inc.

As might be expected, many more companies moved into and out of the Bottom 100 group of industrials. Five companies that appeared in the last listing merged or were acquired by other firms; 22 grew into the Fourth 100 rank (301-400), and five dropped below the Top 500.

EXHIBIT 1

Financial Statistics

Median ($000)

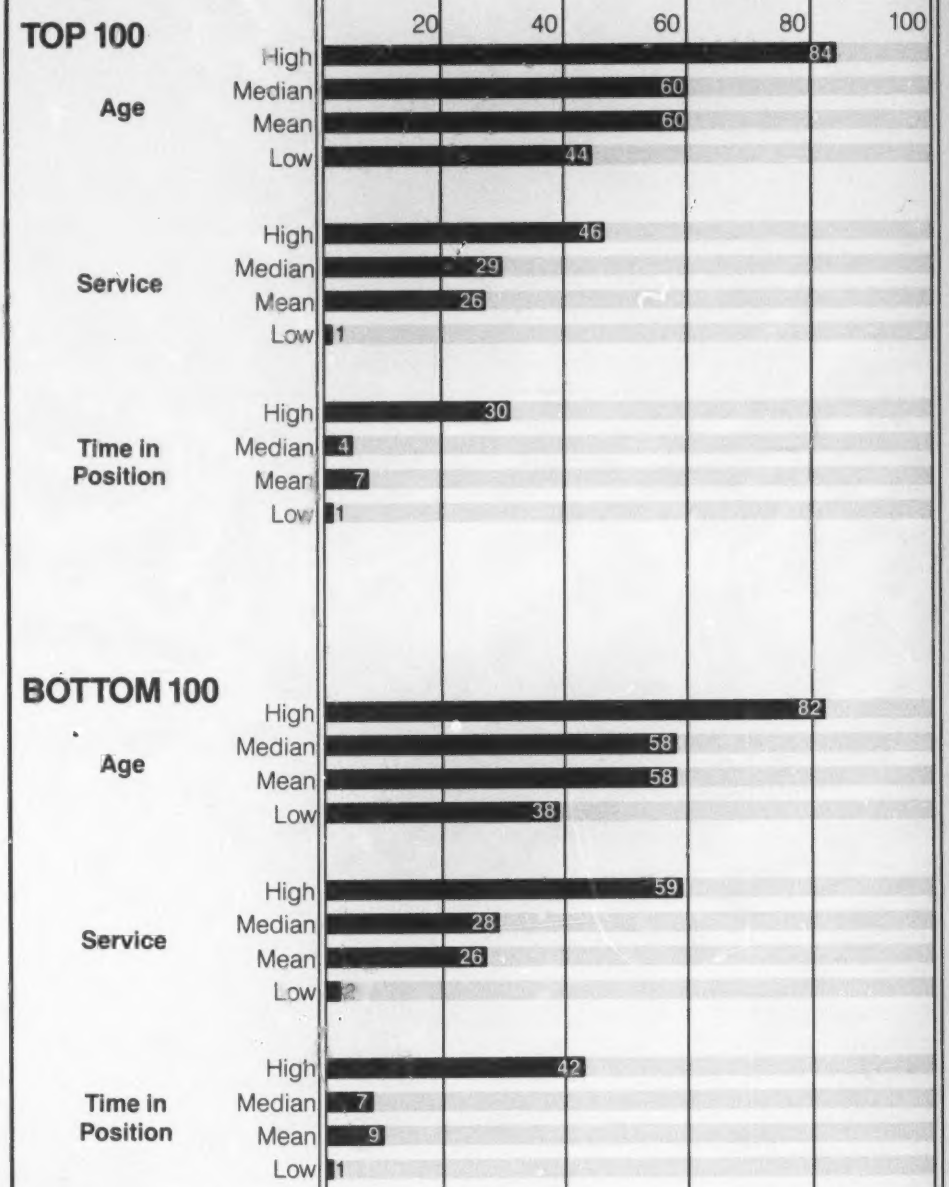


The CEOs

The average chief executive in the Top 100 industrials was 60 years old, had been in the position for seven years and with the company for 26 years ***(Exhibit 2).*** In the Bottom 100, the average CEO was 58, had nine years in the top position and 26 years of service to the company. The oldest CEO was 84; the youngest, 38.

EXHIBIT 2

Personal Statistics



Total Compensation

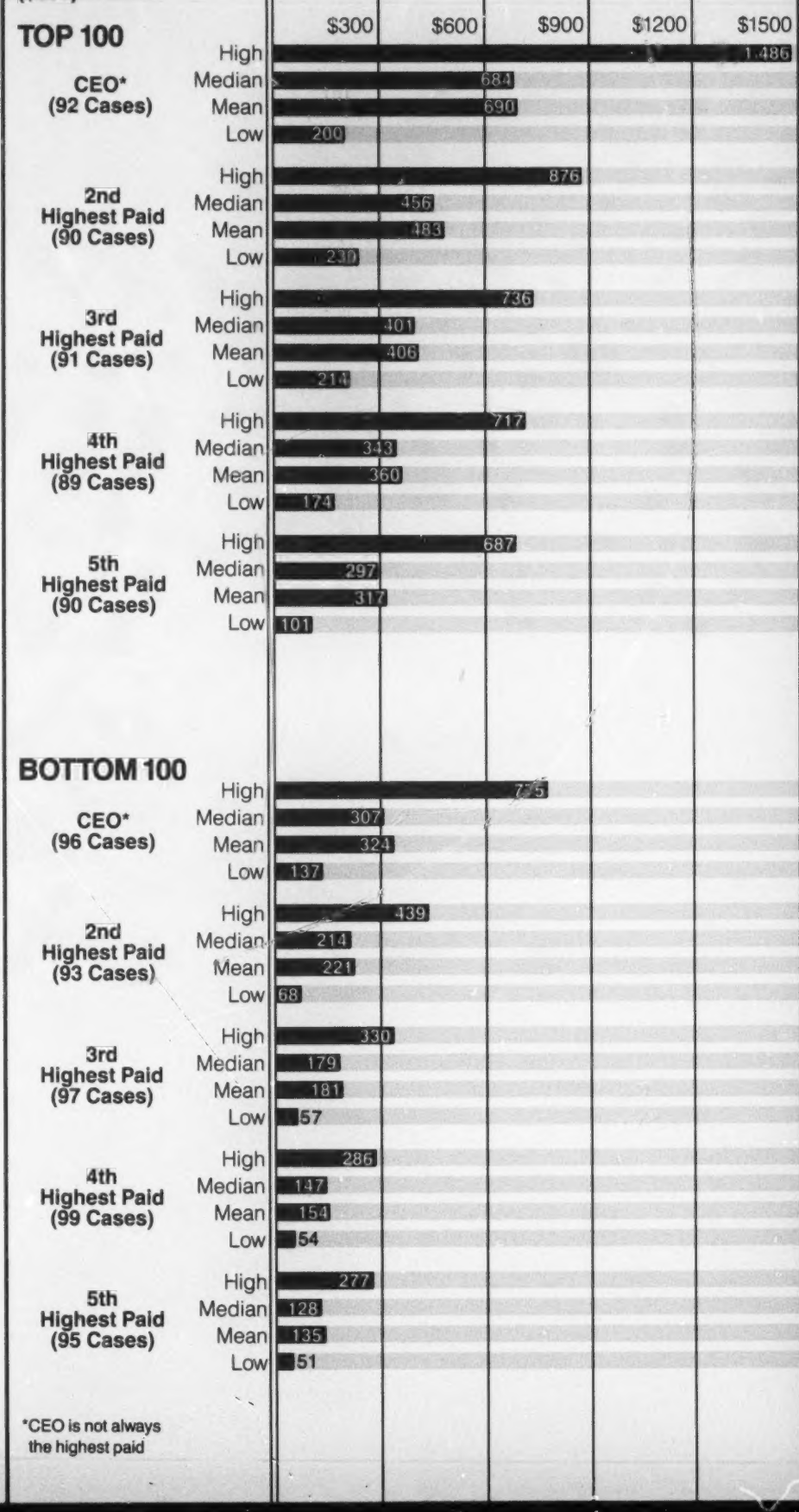
The median total cash compensation for CEOs in the Top 100 companies was $684,000, compared with $617,000 the previous year. As might be expected among companies with such a wide range in size, total compensation also ranged broadly, from a low of $200,000 to a high of $1,486,000.

In the Bottom 100 companies, CEO median cash compensation was $307,000, compared with $303,000 the previous year. The highest paid chief executive in the group received $775,000; the lowest paid received $137,000.

Exhibit 3 shows the range and the median and mean amounts of cash compensation reported in both groups.

EXHIBIT 3

1981 Total Cash Compensation Statistics ($000)



*CEO is not always the highest paid

Increases in Compensation

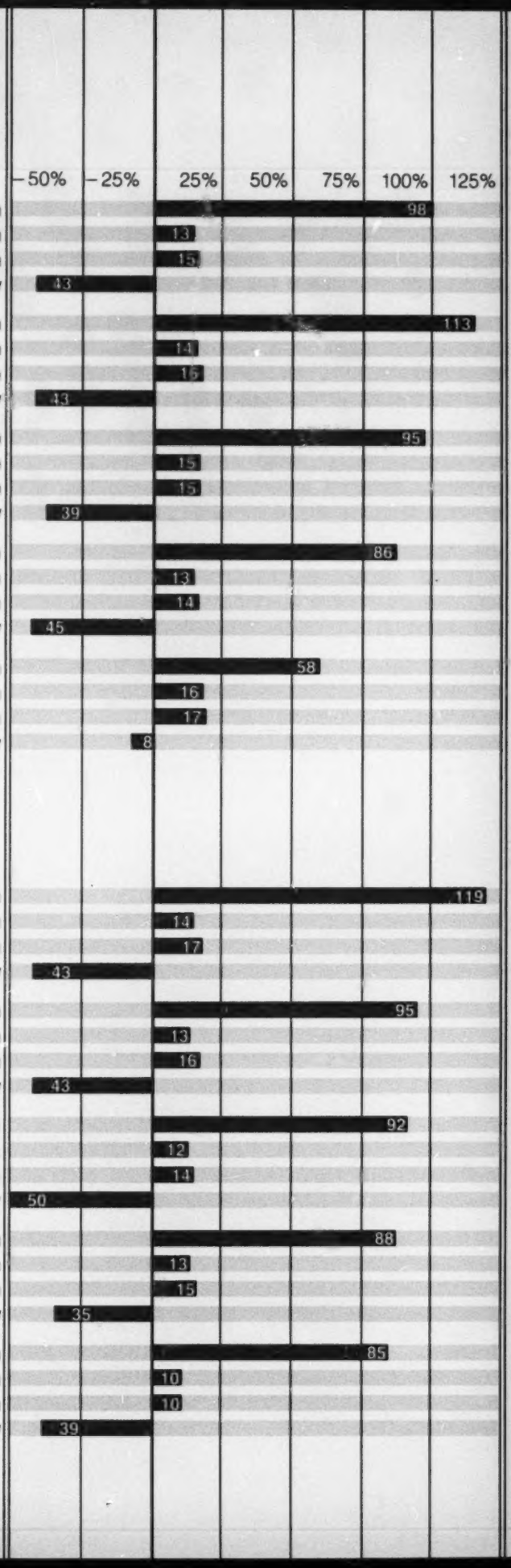
CEOs in the Top 100 industrials received median increases in cash compensation of 13%, the same percentage as in our previous study. The next three highest paid executives in the group received median increases that were two percentage points higher than those of a year ago, while the fifth highest paid executive's 16% median increase was five percentage points more than a year earlier.

Bottom 100 CEOs received median increases of 14%, compared with 8% a year ago. The other highest paid executives in the Bottom 100 group received median increases ranging between two and six percentage points higher than in our last study.

Exhibit 4 illustrates the percentage increases in total cash compensation for Top and Bottom 100 executives.

EXHIBIT 4

Percentage Increase in Total Cash Compensation (1980-1981*)



*these increases were determined for those executives who occupied the same position in both 1980 and 1981

Salary/Bonus Mix

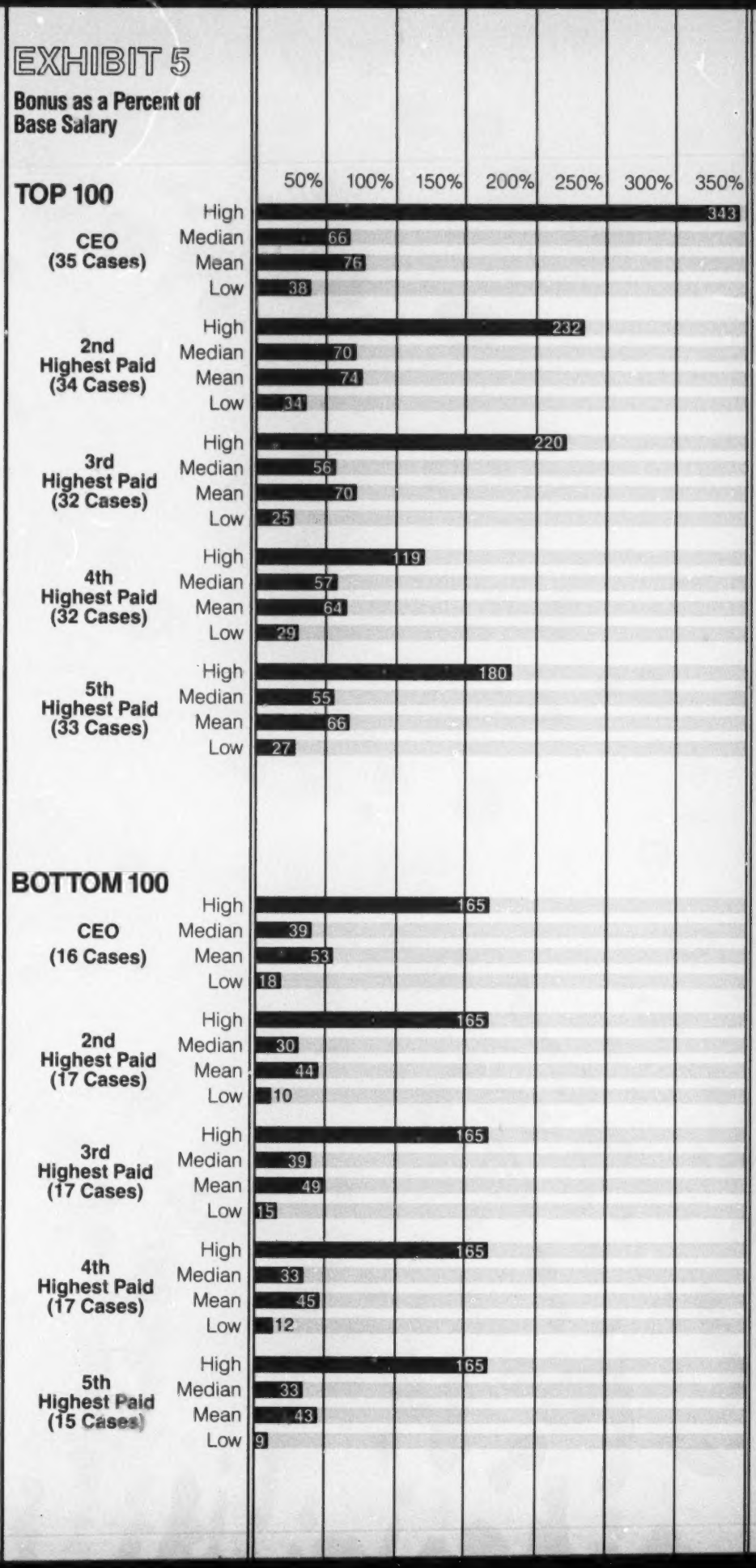
About a third of the Top 100 companies and less than 20% of the Bottom 100 industrials report salary and bonus figures separately. The percentages shown in ***Exhibit 5***, therefore, may not be representative of the entire survey group.

Bonuses were generally lower in both groups than in the previous year. Moreover, seven Top 100 industrials and five Bottom 100 companies reported paying no bonus to their top five executives.

Median bonuses ranged between 55% and 70% of base salary in the Top 100 group and between 30% and 39% in the Bottom 100. The largest bonus in the Top 100 industrials, 343% of base salary, was received by the CEO with the lowest base pay. This CEO's total compensation, despite the large bonus, still ranked only seventh among the Top 100, an illustration of how misleading bonus percentages can be. In fact, executives who receive the highest percentage bonuses take the greatest risk in overall compensation. The smallest percentage bonus in the Top 100 group was 25% of base salary. In the Bottom 100 companies, the largest bonus equaled 165% of salary, the smallest 9%.

EXHIBIT 5

Bonus as a Percent of Base Salary



Incentive Compensation Techniques

All but three of the Top 100 industrials provide both short-term and long-term incentive plans for their executives. Seventy-eight of the Bottom 100 firms also provide both short- and long-term plans.

Short-term incentives are offered by 97 Top 100 companies and 86 Bottom 100 industrials. Current cash is by far the most preferred form of payment.

All of the Top 100 and 86 Bottom 100 industrials use various long-term incentives to reward executives. The stock option is by far the most frequently provided long-term incentive, offered by 95 Top 100 companies and 81 Bottom 100 firms.

Something new was added to long-term incentive plans this year – the Incentive Stock Option (ISO). Sixty-one of the Top 100 industrials have adopted ISOs, and three of these companies offer ISOs as their *only* stock option. Fifty-four Bottom 100 firms have adopted this new incentive award. ISOs are attractive to executives because of their favorable tax benefits. The company, however, does not enjoy the same benefit; in fact, it cannot take a tax deduction when an executive exercises an ISO option as it can for non-qualified stock options. Ninety-two Top 100 companies provide non-qualified stock options (NQSOs), as do 74 Bottom 100 companies.

Exhibits 6 and ***7*** review the short- and long-term incentive pay practices of the Top 100 companies during the past five years, and ***Exhibits 8*** and ***9*** summarize these practices among Bottom 100 companies in the last three years. ***Exhibits 10*** and ***11*** compare the current short- and long-term incentive practices of the Top 100 and Bottom 100 industrials. ***Exhibit 12*** illustrates the types of awards provided by each of the Top 100 companies, as reported to shareholders. ***Exhibit 13*** is an alphabetical listing of the Bottom 100 companies.

Definitions of Short-Term Incentives

To ensure consistent interpretation of study results, we define the various short-term awards as follows:

☐ Current Cash

Any award paid in cash either immediately following the close of the year on which the award is based or in installments beginning in that year and continuing for a number of years during active employment.

☐ Current Stock

Any award paid in stock either immediately following the close of the year on which the award is based or in installments beginning in that year and continuing for a number of years during active employment.

☐ Deferred Cash

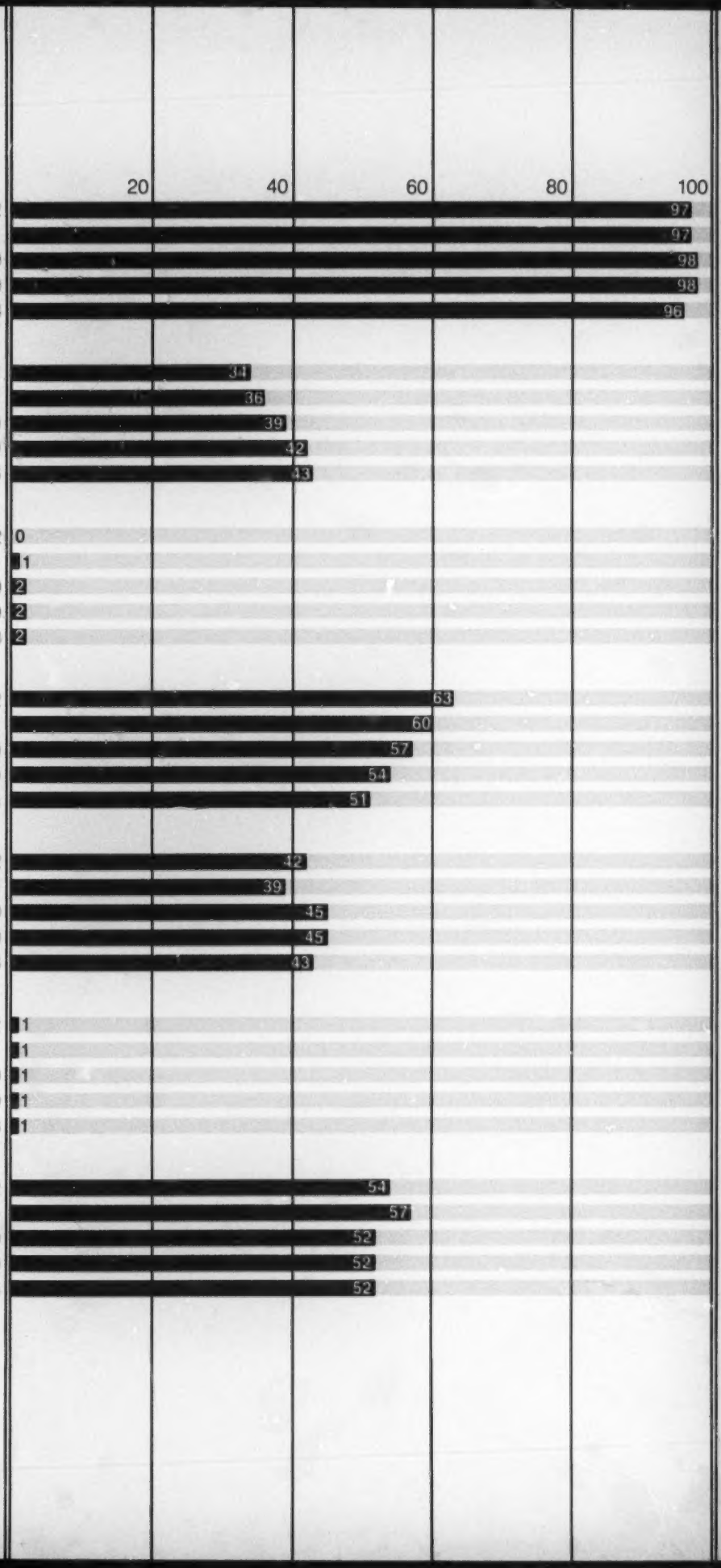
Any award paid in cash, but not until termination or retirement. The fact that the payment at termination or retirement might be in a lump sum or spread over several annual installments is not considered in this study and does not affect this classification. Similarly, there is no analysis of any increase (e.g., interest payments) in the award amount during the deferral period.

☐ Deferred Stock

Any award made in stock under the short-term incentive plan, but not paid until termination or retirement. The fact that the payment at termination or retirement might be in a lump sum or spread over several annual installments is not considered in this study and does not affect this classification. Similarly, there is no analysis of any increase (e.g., market price gains and/or dividend equivalents) in the award amount during the deferral period.

EXHIBIT 6

Summary of Top 100 Short-Term Incentive Trends (1978-1982)



Definitions of Long-Term Incentives

We define the various long-term awards as follows:

☐ Stock Options

An opportunity to purchase company stock in the future at a predetermined price.

☐ Stock Appreciation Rights

A right granted in connection with an option where the executive, in lieu of exercising the option, can receive a payment equal to the amount by which the fair market value of the stock, on the date the option otherwise would have been exercised, exceeds the option price. These payments can be made in cash or free shares of stock having an equivalent value, or a combination of both.

☐ Performance Unit Awards

Any grant of contingent units that are "earned out" by meeting pre-established performance goals over a predetermined span of time (usually three to six years). Such units, when earned, are assigned an arbitrary value that is not related to the *then* current market price of the company's stock. Payment is made in cash or equivalent shares of stock.

☐ Performance Share Awards

Any grant of contingent units that are "earned out" by meeting pre-established performance goals over a predetermined span of time (usually three to six years). When earned, each of the units awarded to an employee is converted to a share of common stock. Alternatively, the employee may receive the cash equivalent of the common stock or a combination of cash and stock. Performance goals are most often stated in terms of earnings-per-share growth, but other measures may be used.

☐ Stock Grants

Grants of stock or stock units at no or nominal cost. In some instances, the stock is nontransferable and/or subject to substantial risk of forfeiture until some special conditions are met. This is called restricted stock. The restrictions are typically designed to lapse over a period of years, based on continuing service or achievement of predetermined financial objectives.

☐ Phantom Stock

Any award made in units analogous to an actual share of stock where the employee receives, after a period of time, the equivalent of the appreciation in the value of the underlying stock. This sum may be paid out either in cash or in stock.

☐ Dividend Units

Any award made in units analogous to an actual share of stock where the employee receives only the equivalent of dividends paid on shares of the company's stock. This sum may be paid out either in cash or in stock over a stated number of years.

EXHIBIT 7

Summary of Top 100 Long-Term Incentive Trends (1978-1982)

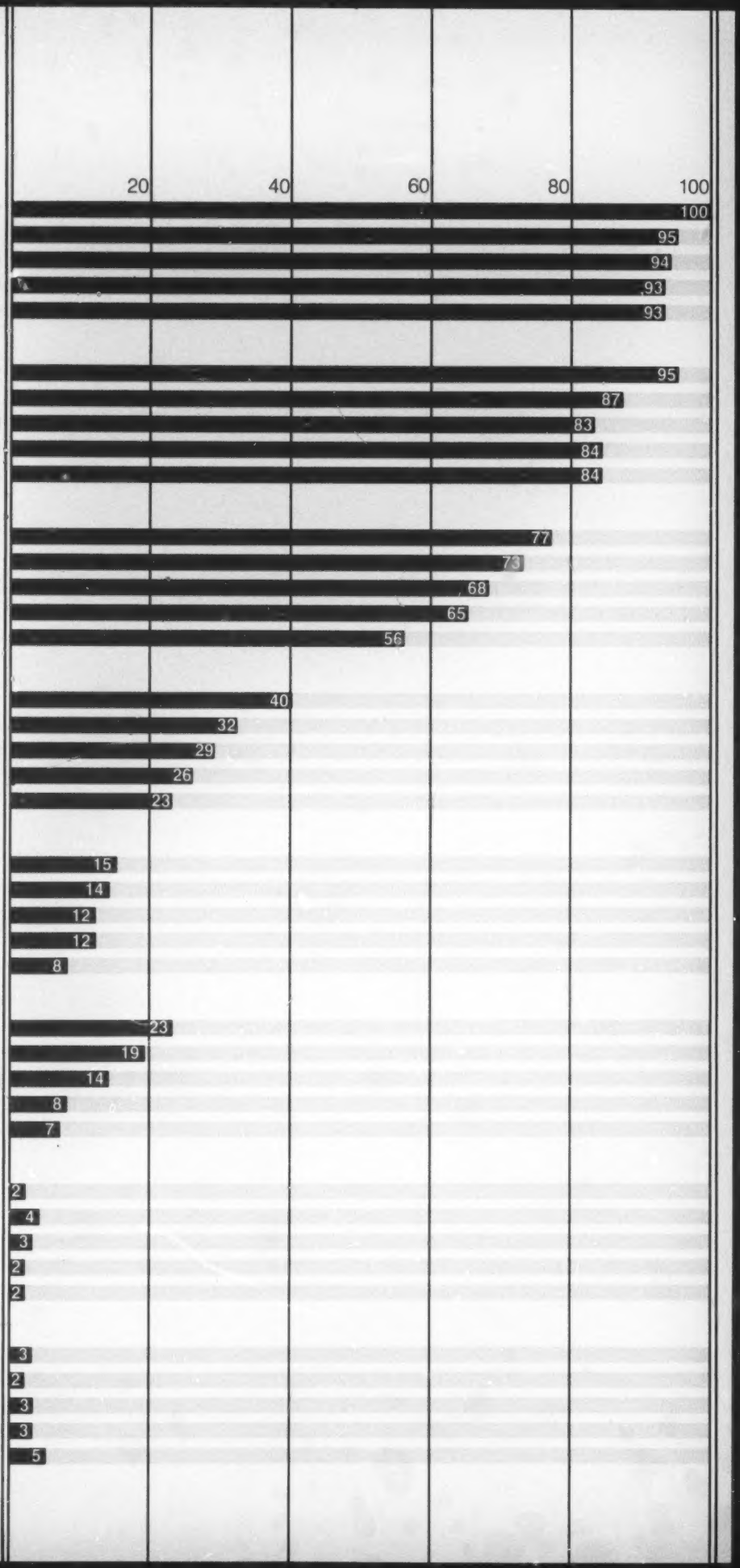


EXHIBIT 8

Summary of Bottom 100 Short-Term Incentive Trends (1980-1982)

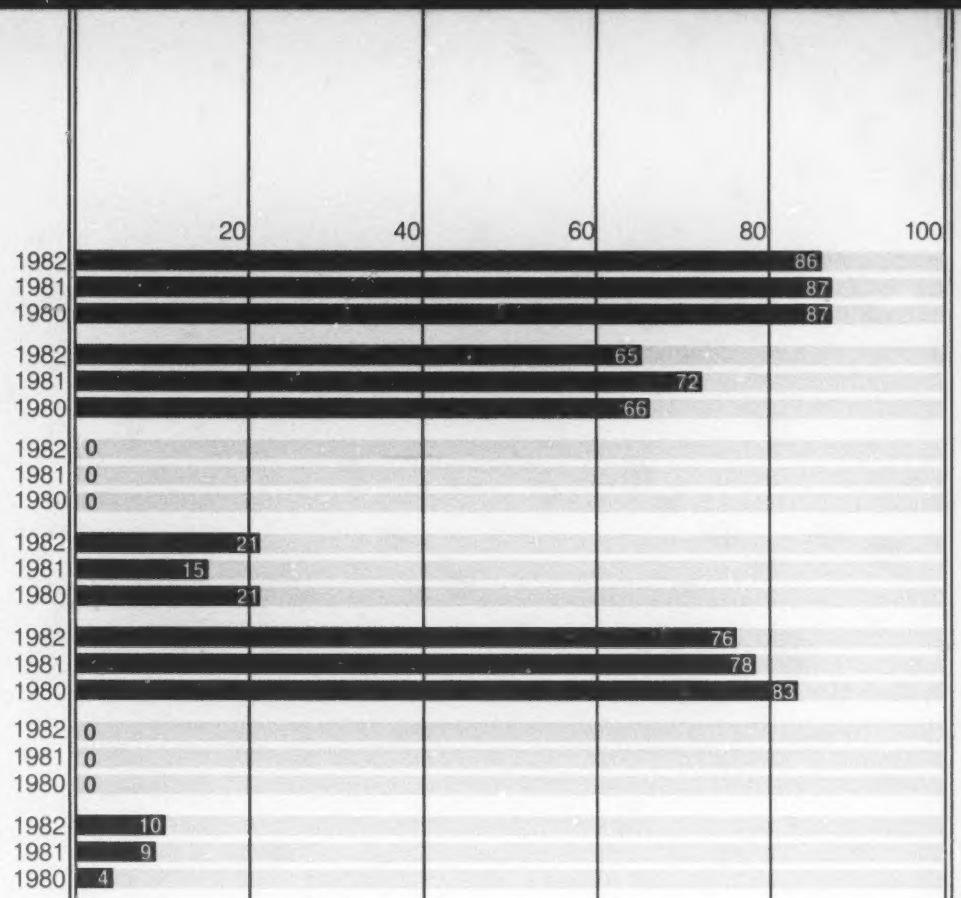


EXHIBIT 9

Summary of Bottom 100 Long-Term Incentive Trends (1980-1982)

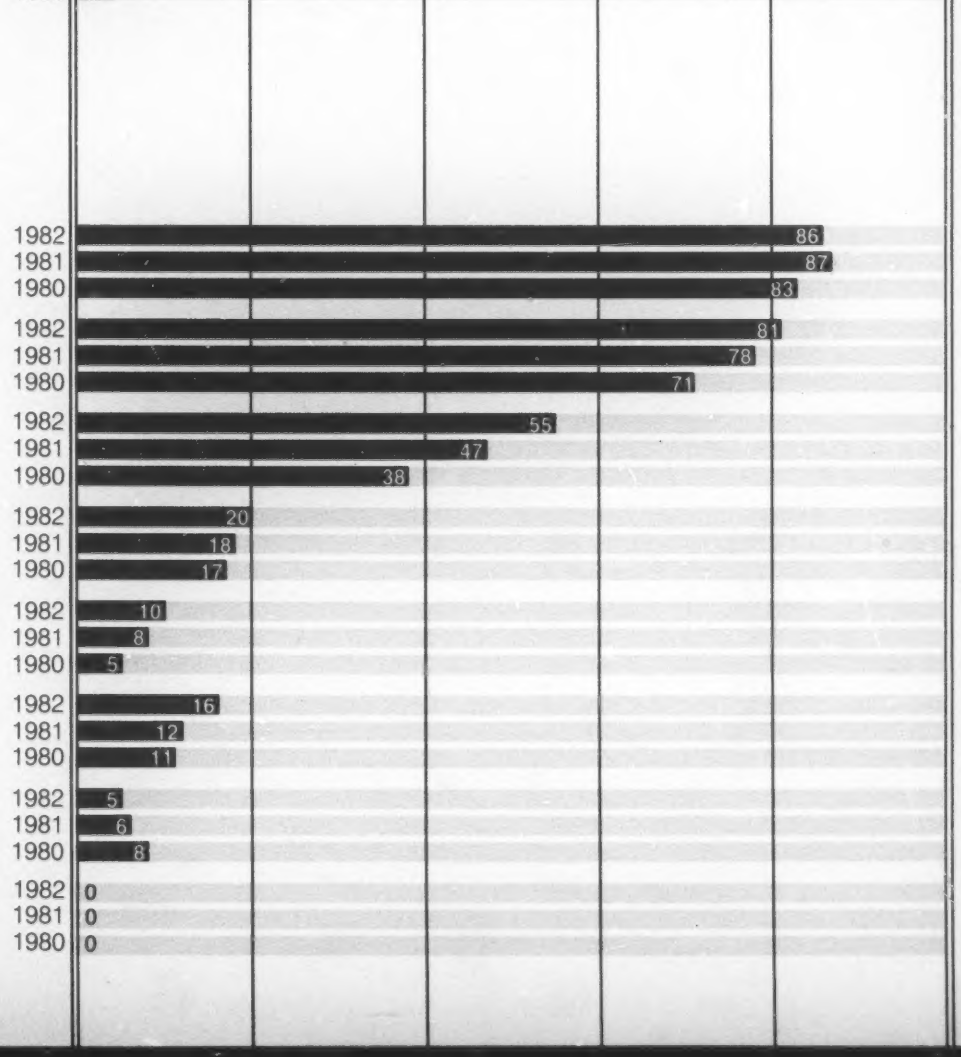


EXHIBIT 10

Comparison of Short-Term Forms of Payment

EXHIBIT 11

Comparison of Long-Term Incentive Techniques

Stock Options — Top 100: 95; Bottom 100: 81

Stock Appreciation Rights — Top 100: 77; Bottom 100: 55

Performance Units — Top 100: 40; Bottom 100: 20

Performance Shares — Top 100: 15; Bottom 100: 10

Stock Grants/Restricted Stock — Top 100: 23; Bottom 100: 16

Phantom Stock — Top 100: 2; Bottom 100: 5

Dividend Units — Top 100: 3; Bottom 100: 0

EXHIBIT 12

Short- and Long-Term Incentive Plans in the Top 100 U.S. Industrial Companies (1)

Company	Short-Term Incentive Plans				Long-Term Incentive Plans							
	Current Cash	Current Stock	Deferred Cash (2)	Deferred Stock (2)	Stock Options		SARs	Performance Plans		Phantom Stock	Stock Grants (•)	Dividend Units
					ISO	NQSO		Units	Shares			
Allied Corporation					★							
Aluminum Company of America												
Amerada Hess Corporation					★						●	
American Brands, Inc.					★	★	★					
American Can Company					★			★				
American Home Products Corporation												
Anheuser-Busch Companies, Inc.					★	★	★					
Armco Inc.												
Ashland Oil, Inc.					★							
Atlantic Richfield Company												
Beatrice Foods Co.					★	★						
The Bendix Corporation					★							
Bethlehem Steel Corporation												
The Boeing Company					★							
Borden, Inc.												
CPC International Inc.												
Caterpillar Tractor Co.	NO PLAN REPORTED				★							
Celanese Corporation					★							
Champion International Corporation					★							
The Charter Company	NO PLAN REPORTED				★						●	
Chrysler Corporation					★							
Cities Service Company					★							
The Coastal Corporation	★				★							
The Coca-Cola Company								★				
Colgate-Palmolive Company					★							
Combustion Engineering, Inc.					★							
Consolidated Foods Corporation								★				
The Continental Group, Inc.												
Dart & Kraft, Inc.					★						●	
Deere & Company					★							
The Dow Chemical Company					★						★	
Dresser Industries, Inc.					★							
E.I. du Pont de Nemours and Company					★							
Eastman Kodak Company	NO PLAN REPORTED				★			★				
Exxon Corporation					★							
The Firestone Tire & Rubber Company											●	
Ford Motor Company					★							
General Dynamics Corporation					★							
General Electric Company												
General Foods Corporation											★	
General Mills, Inc.												
General Motors Corporation					★			★				
Georgia-Pacific Corporation												
Getty Oil Company			★									
The Goodyear Tire & Rubber Company					★							
W.R. Grace & Co.					★						●	
The Greyhound Corporation					★							
Gulf Oil Corporation												
Gulf & Western Industries, Inc.												
Honeywell Inc.					★							
IC Industries, Inc.					★			★			●	
Inland Steel Company												
International Business Machines Corporation					★							
International Harvester Company												

Darker color indicates feature included in plan.

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Company	Short-Term Incentive Plans				Long-Term Incentive Plans							
	Current Cash	Current Stock	Deferred Cash (2)	Deferred Stock (2)	Stock Options		SARs	Performance Plans		Phantom Stock	Stock Grants (•)	Dividend Units
					ISO	NQSO		Units	Shares			
International Paper Company	■			■					■			
International Telephone and Telegraph Corporation	■	■	■		★		■	■				
Johnson & Johnson	■	■			★	■		■			■	
Kerr-McGee Corporation	■				★	■	■					
The LTV Corporation	■				★	■	■	■				
Litton Industries, Inc.	■				★	■	■					
Lockheed Corporation	■		■		★	■	■					
McDonnell Douglas Corporation	■	■			★		★					
Minnesota Mining and Manufacturing Company	■				★	■		■				
Mobil Corporation	■	■			★	■	■	■				
Monsanto Company	■	■	■			■	■	■				
Nabisco Brands, Inc.	■		■						■			
National Steel Corporation	■	■	■	■	★	■	■	■				
Northwest Industries, Inc.	■				★	■	■					
Occidental Petroleum Corporation	■					■	■				●	
Owens-Illinois, Inc.	■		■			■	■	■				
PepsiCo, Inc.	■					■	■	■			■	
Philip Morris Incorporated	■				★	■						
Phillips Petroleum Company	■	■	★					■	■			
The Procter & Gamble Company	■	■				■	■					
RCA Corporation	■	■	■		★		■					
Ralston Purina Company		■		■	★						■	
Raytheon Company	■		■		★							
Republic Steel Corporation	■					■	■					
R.J. Reynolds Industries, Inc.	■		■	■	★				★		● ★	★
Rockwell International Corporation	■	■			★				■			
Shell Oil Company	■	■	■	■	★		■	■				
The Signal Companies, Inc.	■	■	■	■	★		■				●	
Sperry Corporation	■		★		★		■	★			● ★	
The Standard Oil Company (an Ohio Corporation)	■		■	■			■					
Standard Oil Company (Indiana)	■	■	■	■	★		■				●	
Standard Oil Company of California	■	■	■	■					■		●	
Sun Company, Inc.	■	■	■			■		■			■	
TRW Inc.	■				★	■	■					
Tenneco Inc.	■				★	★	★	★				
Texaco Inc.	■		■						■	■	●	
Texas Instruments Incorporated	■	■				■		■				
Union Carbide Corporation	■		■		★	■	■					
Union Oil Company of California	■		■			■	■		■			
Union Pacific Corporation	■		■	■	★	■	■				● ★	
United Brands Company	■		■		★	■	■				●	
United States Steel Corporation	■		■			■	■					
United Technologies Corporation	■	■				■	■	■				
Westinghouse Electric Corporation	■	■	■	■		■	■		■			
Weyerhaeuser Company	■		■			■	■					
Xerox Corporation	■		■		★						■	

(1) Companies are those ranked by *Fortune* (May 1982). Celanese Corporation, Combustion Engineering, Inc., Inland Steel Company, Kerr-McGee Corporation and Northwest Industries, Inc. have been substituted for Agway Inc., BATUS, Inc., Farmland Industries, Inc., Marathon Oil Company and Western Electric.

(2) "Deferred" awards indicate provision for payout after termination or retirement under the short-term incentive plan or under a separate deferred compensation plan but do not include individual contractual deferred compensation arrangements.

★ New feature adopted in 1982.

● Restricted stock.

Please note that this chart reports methods of payment or form of awards for which the companies have made provisions in their plans, but does not necessarily indicate methods of payment or form of awards actually used.

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EXHIBIT 13

Alphabetical Listing of Bottom 100* Companies

American Bakeries Company
American Greetings Corporation
American Hoist & Derrick Company
Ampco-Pittsburgh Corporation
The Armstrong Rubber Company
Arvin Industries, Inc.
Avery International Corporation
Barnes Group Inc.
Bausch & Lomb Incorporated
Beckman Instruments, Inc.
Belco Petroleum Corporation
Bell & Howell Company
Briggs & Stratton Corporation
Brown-Forman Distillers Corporation
Bucyrus-Erie Company
Capital Cities Communications, Inc.
Carpenter Technology Corporation
The Ceco Corporation
Chicago Pneumatic Tool Company
Collins & Aikman Corporation
Cone Mills Corporation
Consolidated Papers, Inc.
Copperweld Corporation
Dan River Inc.
Deluxe Check Printers, Incorporated
Dennison Manufacturing Company
The Dexter Corporation
The Dorsey Corporation
Dow Jones & Company, Inc.
EG&G, Inc.
Eagle-Picher Industries, Inc.
Economics Laboratory, Inc.
E-Systems, Inc.
Federal Paper Board Company, Inc.
Ferro Corporation
Fieldcrest Mills, Inc.
Fort Howard Paper Company
The Foxboro Company
Frederick & Herrud, Inc.
GAF Corporation
Gates Learjet Corporation
Gerber Products Company
Gifford-Hill & Company, Inc.
Gulf Resources & Chemical Corporation
Handy & Harman
Harcourt Brace Jovanovich, Inc.
Harnischfeger Corporation
Hoover Universal, Inc.
Hyster Company
Ideal Basic Industries, Inc.
Idle Wild Foods, Inc.
Illinois Tool Works Inc.
Insilco Corporation
Interstate Bakeries Corporation
James River Corporation of Virginia
Kane-Miller Corp.
Kellwood Company
Kerr Glass Manufacturing Corporation
Knudsen Corporation
M. Lowenstein Corporation
M/A-COM, Inc.
Macmillan, Inc.
Magic Chef, Inc.
Marion Corporation
Maryland Cup Corporation
Masonite Corporation
McCormick & Company, Incorporated
Mitchell Energy & Development Corp.
Mohasco Corporation
Nalco Chemical Company
Nashua Corporation
Northwestern Steel and Wire Company
Nucor Corporation
Oak Industries Inc.
Pabst Brewing Company
Palm Beach Incorporated
Peabody International Corporation
H. K. Porter Company, Inc.
Purex Industries, Inc.
The Rath Packing Company
Raychem Corporation
Research-Cottrell, Inc.
Riegel Textile Corporation
H. H. Robertson Company
Rohr Industries, Inc.
Savannah Foods & Industries, Inc.
The Scott & Fetzer Company
Shaklee Corporation
Sheller-Globe Corporation
Sonoco Products Company
Stokely-Van Camp, Inc.
Sun Chemical Corporation
Todd Shipyards Corporation
Tyson Foods, Inc.
United Merchants and Manufacturers, Inc.
Varian Associates, Inc.
Warnaco Inc.
Westmoreland Coal Company
Wm. Wrigley Jr. Company
Wyman-Gordon Company

*Companies are those ranked 401-500 by *Fortune* (May 1982). Some of these companies have recently merged or are not required to file proxy statements with the SEC. Consequently, Bell & Howell Company, EG&G, Inc., Ferro Corporation, Insilco Corporation, Interstate Bakeries Corporation, Mitchell Energy & Development Corp., Pabst Brewing Company, Purex Industries, Inc. and Varian Associates, Inc. have been substituted for Envirotech Corporation, Fiat-Allis Construction Machinery, Inc., L.B. Foster Company, Georgia Kraft Company, Mallinckrodt, Inc., Midland Cooperatives, Inc., National Starch & Chemical Corporation, Titanium Metals Corporation of America and Wallace-Murray Corporation.

About TPF&C

We have been consultants to management since 1917. TPF&C currently employs more than 1600 persons and has a consulting and specialized support staff of over 1200.

We serve more than 4500 clients in the private and public sectors, about 500 of whom are multinational organizations. Our clients have operations in over 90 countries.

As consultants to management, we relate our services to a number of important business problems. Our clients typically recognize the value of outside counsel in light of today's demands on management for ready access to the diversity of skills and knowledge required to keep pace with rapidly changing technologies, markets and cultures.

We have 33 consulting offices worldwide — 19 in the U.S., four in Canada, four in Europe, three in Australia, two in Latin America and one in the Far East — to better serve our growing list of clients.

Our consulting skills are in these fields:

- executive compensation
- salary administration
- marketing and sales compensation
- actuarial and employee benefits
- communications
- human resource management
- management, organization and planning
- health care management/HMOs
- risk management
- insurance company actuarial and management services

TPF&C Compensation Data Bank and Compensation Determination Service

TPF&C's Compensation Data Bank provides annual surveys for participating companies, evaluating base salary, total cash compensation and base salary midpoints. CDB also sponsors a special biennial survey of long-term incentive plans that permits comparison of different types of award.

The Compensation Determination Service provides analysis of pay policies and practices, and uses composite mathematical models to identify factors in pay differentials that cannot be attributed to variances in job content.

ATLANTA
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BRISBANE
BRUSSELS
CALGARY
CARACAS
CHICAGO
CLEVELAND
DALLAS
DETROIT
FRANKFURT
HONG KONG
HOUSTON
LONDON
LOS ANGELES
MELBOURNE
MILWAUKEE
MINNEAPOLIS
MONTREAL
NEW YORK
PARIS
PHILADELPHIA
PITTSBURGH
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